



FINAL REPORT

Public Retirement Systems Committee

January 2008

MEMBERS

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Senator Jeff Angelo
Senator Staci Appel
Senator Frank B. Wood
Senator Mark Ziemann

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AUTHORIZATION AND APPOINTMENT

The Public Retirement Systems Committee was established pursuant to Code section 97D.4 and charged with reviewing and evaluating public retirement systems in Iowa. The Committee reviewed the Iowa Public Employees' Retirement System, the Municipal Fire and Police Retirement System of Iowa, the Department of Public Safety Peace Officers' Retirement System, and the Judicial Retirement System.



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I. Committee Proceedings

The Committee conducted meetings on three days during the 2007 Legislative Interim. The Committee met on October 31, 2007, November 1, 2007, and December 7, 2007.

II. Overview

The Committee received testimony from various organizations and individuals concerned with public retirement, including individuals involved with the management of the various public retirement systems in the state and with the operation of the state of Iowa's deferred compensation program. This final report provides an overview for each major topic addressed in the testimony received during the three meetings and summarizes the recommendation proposals submitted.

III. Municipal Fire and Police Retirement System of Iowa

Municipal Fire and Police Retirement System of Iowa (MFPRSI) Staff. Mr. Dennis Jacobs, MFPRSI Executive Director, and Mr. Donn Jones, Consulting Actuary, provided background information concerning the retirement system. Mr. Jacobs noted that the fund returned 18.9 percent last fiscal year. Based on the most recent actuarial valuation of the system for FY 2006-2007, the funded status of the system is around 107 percent. In addition, based on this valuation and the current state appropriation to the system, the required contribution rate from cities beginning FY 2008-2009 will be 18.75 percent, down from 25.48 percent for FY 2007-2008. Because of recent good investment returns, Mr. Jacobs indicated that the required contribution rate from the cities will likely fall below 17 percent after the next annual actuarial valuation. The cities, however, are required to contribute a minimum of 17 percent. The system recommends restoration of the full state funding of the benefits committed to in 1977, a change from a fixed dollar amount to a rate of 3.79 percent of compensation.

Iowa League of Cities. The league recommends the following legislative changes:

- Establish a reasonable split of the required contribution rate between members and cities. Remove the 17 percent floor on city contributions.
- Oppose any expansion of benefits unless the cost is borne equitably between the cities and the members.

Iowa State Police Association. The association recommends the following:

- Establish, when funding is available, a maximum pension of 90 percent of final average pay.
- Maintain current contribution amounts and formula.
- Increase the escalator program which provides increases in retirement benefits following retirement.
- Include overtime in a member's earnable compensation for purposes of calculating retirement benefits.

Iowa Professional Fire Fighters. The association recommends the following:

- Maintain the current mechanism for establishing contribution amounts by employers and employees.



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- Increase the pension multiplier applied after 22 years of service to 74 percent with a maximum pension of 90 percent of final average pay contingent upon available funding.
- Establish a presumption that disabilities or deaths due to cancer and infectious diseases are job-related.
- Clarify that cities do not have doctor choice under Code chapter 411.
- Enforce the presumption that disabilities or deaths due to heart or lung diseases are job-related.
- Provide that the cost of the \$100,000 line of duty death benefit be paid from the State General Fund and not the retirement fund.
- Increase the escalator program which provides increases in retirement benefits following retirement.

IV. Judicial Retirement System

Mr. David Boyd, State Court Administrator, provided background on the retirement system for judges and summarized the recent results from the most recent actuarial valuation. As of July 1, 2007, the funded ratio of assets to liabilities of the system is around 70 percent and the annual actuarially required contribution rate from the state should be 30.9 percent. The failure of the state to contribute the statutorily required minimum rate of 23.7 percent of covered payroll since FY 2001-2002 has resulted in significant underfunding of the retirement system. The Judicial Branch will recommend for FY 2008-2009 a contribution to the Judicial Retirement Fund based upon the 30.9 percent contribution rate.

V. Iowa Public Employees' Retirement System

Iowa Public Employees' Retirement System (IPERS) Staff. Ms. Donna Mueller, Chief Executive Officer (CEO), and Ms. Patrice Beckham, Consulting Actuary, addressed the Committee and provided an overview of the retirement system and its financial condition.

Ms. Beckham presented an historical summary of changes in IPERS' unfunded actuarial liability, noting that 2003 was the first year when the contribution rate of 9.45 percent for IPERS regular membership was not sufficient, and indicated that the most recent valuations do not yet reflect that the total contribution rate for regular members will eventually increase to 11.45 percent. Additionally, Ms. Beckham supplied contribution rate figures concerning the well-funded status of the special membership classifications and noted that the gap between the actuarial required contribution rate and the statutory contribution rate for regular members is 1.57 percentage points. Based on a recent 10-year projection study, there is a 73 percent probability that the statutory contribution rate of 11.45 percent will be sufficient to pay the accrued liabilities of the system for regular members of IPERS, and a 50 percent probability that the funded ratio of assets to liabilities will equal or exceed 100 percent.

IPERS made the following recommendations:

- Allow the retirement system to adjust contribution rates for the regular members of IPERS. The proposal would limit increases or decreases in the total contribution rate to one-half of a percentage point per fiscal year.



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- Eliminate bonuses and allowances from the definition of covered wages used to determine contributions to the retirement system and benefits.
- Forego the implementation of benefit changes during FY 2008-2009 while the system upgrades benefits administration technology.
- Evaluate how early retirement incentives may hurt retention of qualified employees, consider whether phased retirement programs or changes in the formula multiplier may be useful incentives to delay retirement, and explore ways to address the lack of a guaranteed cost-of-living adjustment to the IPERS monthly benefit.

IPERS Investment Board. Mr. David Creighton, CEO of The Bryton Companies in West Des Moines and Vice Chairperson of the Investment Board, and Mr. Karl Koch, Chief Investment Officer, addressed the Committee. For FY 2006-2007, the fund earned a 16.29 percent return. The presenters made the following recommendations:

- The Investment Board does not support any type of social investing strategy or agenda.
- The cap on IPERS investment management expenses should be eliminated. IPERS utilizes performance-based fees and a cap limits the ability to reward excellent portfolio managers.

IPERS Benefit Advisory Committee (BAC). The BAC recommends the following:

- Maintain and preserve IPERS as a defined benefit plan.
- Support granting IPERS the authority to adjust contribution rates when necessary.
- Establish an independent board of trustees for IPERS.

Iowa State Education Association. The association supports the following:

- Grant IPERS the authority to adjust contribution rates on an actuarial basis.
- Study proposals for establishing a permanent cost-of-living benefit for IPERS retirees.
- Establish an independent board of trustees for IPERS.

Iowa League of Cities. The league opposes expansion of benefits until the system is fully funded and urges caution in expanding the membership of IPERS protection occupation class or the creation of new benefits classifications.

School Administrators of Iowa. Change the formula multiplier to 2 percent for each year of employment for all regular members regardless of the number of years of service.

Iowa Hospital Association. Expand the application of the shortened retirement waiting period to all public hospital employees, not just licensed health care professionals.

Iowa State Sheriffs' and Deputies' Association. Consider, subject to a determination of the cost of the proposal, increasing the escalator for between 22 and 30 years of service from the current 1.5 percent per year to 2 percent per year, resulting in a maximum payout of 76 percent for 30 years of service.

Iowa County Attorneys' Association. Create a new category in IPERS for county attorneys and assistant county attorneys with benefits matching the benefits provided under the protection occupation classification.



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Protection Occupation Classification. Presentations were made recommending that emergency medical services providers, county jailers, Iowa National Guard installation security officers, and Polk County attorney special investigators be included in this classification.

Miscellaneous Proposals:

- The Iowa Association of School Business Officials recommends legislation allowing school districts to limit the number of eligible tax-sheltered annuities (authorized under Internal Revenue Code § 403b) offered to school district employees.
- Allow a credit against the full actuarial cost of a buyback of service by a member under IPERS reflective of the amount previously contributed to the system by that member and not refunded to the member.

VI. Peace Officers' Retirement System

Peace Officers' Retirement System (PORS) Staff. Mr. David Heuton, PORS Director of Administrative Services, and Ms. Beckham provided background on the system.

Based upon a draft of the most recent actuarial evaluation of the system, the required contribution rate should be 45.84 percent and the unfunded liability of the system is about \$100 million. Ms. Beckham commented on a chart containing historical contribution rate levels, a chart of contribution shortfalls dating back to 2002, discussed graphs depicting long-term funding projections, and discussed one alternative proposal regarding a 2 percent increase in the contribution rate each year and appropriation of \$5 million per year for a 12-year period beginning in 2009. In general, she noted that additional contributions are needed to cover the underfunding and counter the continually increasing actuarially required contribution rate trend.

The Department of Public Safety made the following recommendations for legislative action:

- Modify language governing the medical board to match language provided for MFPRSI.
- Provide that accidental disability benefits cease if the member seeks and obtains another law enforcement position.
- Allow the board of trustees to adopt the actuarial cost method used.
- Increase the state appropriation to the retirement fund by \$5 million per year coupled with a 2 percent annual increase in the state contribution rate to the system until the system is fully funded.

State Police Officers Council, Iowa State Troopers Association, and Iowa State Patrol Supervisors' Association. The associations support the proposal to increase state appropriations and the state contribution rate to reach fully funded status. Once the system becomes fully funded, contributions should be determined in a manner consistent with MFPRSI.

VII. Public Retirement Systems — Recent Trends

Ms. Mueller identified the following recent trends observable nationally relating to public retirement systems:

- The funding ratio decline has slowed and the downward trend should reverse as overall funding continues to strengthen. It was noted that IPERS is on the increase.



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- The ratio of active members to those drawing benefits has decreased, and there is a negative median external cash flow among plans. This can be observed to be normal in mature retirement plans with prefunded benefits, however.
- Employer contribution rates have increased, in part due to frozen employee contribution rates in many states and periods of "frozen" employer contributions.
- In response to growing unfunded actuarial liabilities and declining funding ratios, states began to evaluate cost controls and ways to stabilize employer contributions, including moving from defined benefit to defined contribution plans, although defined benefit plans remain more prevalent and popular with employees.
- Benefit changes are being considered not only as a way to control costs, but also to meet changing needs such as increased longevity and the baby boomer redefinition of retirement.

VIII. State Deferred Compensation Program

Ms. Mollie Anderson, Director, Department of Administrative Services (DAS), accompanied by Ms. Jennifer Sandusky, DAS, provided an overview of the program since its inception in 1979. Ms. Anderson indicated that the DAS director is the sole trustee of the program, in whom complete fiduciary responsibility for the program rests. She added that the program covers all of state government with the exclusion of the State Board of Regents, and that some additional entities such as cities, counties, and school districts have been added, in some instances paying DAS for local program administration. Ms. Anderson noted that in the program's early years it appeared that the program was governed more by the best interests of providers rather than program participants, and that this has since been reversed.

Ms. Anderson indicated that the percentage of employees participating in the program has substantially increased, that the number of providers has been drastically reduced and those that remain have low administrative expenses, and that lower contract fees are now applicable. A significant development occurred in 2001, when an employer matching feature was added to the program. Ms. Anderson added that employee education efforts are ongoing, and that improvements relating to electronic contribution payroll deduction capability are under way. Ms. Sandusky noted that the name of the program has been revised to be the Retirement Investors' Club, that an investment consultant has been added for the program, and that it would ease administrative burdens if the Legislature would approve applicability of the employer matching provisions for legislators.

IX. Committee Recommendations

Committee members approved the following recommendations on a unanimous basis, unless otherwise indicated:

1. Iowa Public Employees' Retirement System (IPERS) should be maintained as a core defined benefit plan, but IPERS should be encouraged to continually study and assess options that complement the core defined benefit plan to better recruit and retain public employees.



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2. The Senate and House Appropriations Committees and the Joint Appropriations Subcommittee on the Justice System should fully fund the Judicial Branch request for state contributions to the judicial retirement system or at least provide a state contribution to the judicial retirement system at the statutory rate of at least 23.7 percent of payroll. Senator Angelo voted against this recommendation.
3. The Senate and House State Government Committees should consider legislation which would include the following proposals:
 - a. Municipal Fire and Police Retirement System of Iowa (MFPRSI)
 - The current cap on state contributions to MFPRSI should be removed, thereby providing for a yearly state contribution of 3.79 percent of payroll to the system. Senator Angelo voted against this recommendation.
 - Overtime should be included in earnable compensation if the cost is not significant.
 - Employees covered by MFPRSI should be provided a choice of doctor when injured on the job and in need of medical assistance.
 - b. Peace Officers' Retirement System (PORS)
 - Modify language governing the designation of the medical board for the system to match language provided for in MFPRSI.
 - Provide that accidental disability benefits cease if the member becomes employed in another public safety occupation.
 - Eliminate references to multiple retirement funds in the Code to reflect that only one retirement fund exists.
 - Allow the PORS Board of Trustees to adopt the actuarial method used by the system.
 - Provide for a \$5 million appropriation per year to the system for 12 years and an increase in the state's contribution percentage from 17 percent of payroll by 2 percentage points per year to a maximum of 27 percent. A higher state contribution shall be maintained until the fund is actuarially sound. Senator Angelo voted against this recommendation.
 - A member of the system who was in service under MFPRSI prior to January 1992 and not eligible for a transfer of that service to PORS shall receive credit for that service under PORS at no cost to the member. A state appropriation of \$50,000 shall be made to the system to assist in funding the cost of this credit.
 - c. Iowa Public Employees' Retirement System
 - Allow IPERS to adjust the employer and employee contribution rates for members in regular service on an actuarial basis with yearly changes limited to one-half of a percentage point. Senators Angelo and Zieman voted against this recommendation.
 - Eliminate bonuses and allowances from the definition of covered wages.



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- Forego implementation of major plan design changes in IPERS during FY 2008-2009 while the system upgrades benefits administration technology.
 - Eliminate the statutory cap on investment management expenses.
 - Allow all public hospital employees, not just licensed health care professionals, to return to full-time work within one month of retirement and not lose retirement benefits.
 - Allow a credit for the cost of purchasing prior service equal to the amount of the member's employer's contributions plus interest that were not paid when the member received a refund, prior to July 1, 1998, for that service.
 - Create a new special service category for county attorneys and assistant county attorneys with benefits commensurate with the protection occupation category. Allow service as a county attorney or assistant county attorney prior to the creation of this new category to be credited as service under the new special category.
 - Include county jailers, Iowa National Guard installation security officers, emergency medical services providers, and Polk County attorney special investigators in the protection occupation category.
4. Legislative subcommittees assigned legislation in 2007 on substantive proposals affecting public retirement systems not otherwise recommended by the Committee for inclusion in proposed legislation should continue to examine that legislation during the 2008 Legislative Session.

X. Materials Filed With the Legislative Services Agency

The materials listed were distributed at or in connection with the Committee's deliberations and are on file with the Legislative Services Agency. The materials may be accessed from the <Additional Information> link on the Committee's Internet web page.

<http://www.legis.state.ia.us/asp/Committees/Committee.aspx?id=57>

1. IPERS – Actuarial Valuation Report.
2. Judicial Retirement System – Actuarial Valuation Report.
3. MFPRSI – Actuarial Valuation Report.
4. PORS – Actuarial Valuation Report.
5. DAS – Retirement Investors' Club.
6. LSA – IPERS Proposals.
7. LSA – Judicial Retirement Proposals.
8. LSA – MFPRSI Proposals.
9. LSA – PORS Proposals.
10. PORS – Actuarial Review.
11. PORS – System Presentation.
12. IPERS – System Presentation.
13. JudRet – System Presentation.
14. LSA – Legislative Guide to Iowa Public Retirement Systems.
15. MFPRSI – System Presentation.



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16. MFPRSI – City Attorney, Sioux City.
17. IPERS – Benefits Advisory Committee.
18. IPERS – Investment Board.
19. IPERS – Iowa County Attorneys Association.
20. IPERS – Iowa Emergency Medical Services Association.
21. IPERS – Iowa Hospital Association.
22. IPERS – Iowa League of Cities.
23. IPERS – Iowa State Sheriffs' and Deputies' Association.
24. IPERS – Jim West.
25. IPERS – Polk County Attorney Special Investigators.
26. IPERS – School Administrators of Iowa.
27. IPERS – Teamsters - Jailers.
28. PORS – State Police Officers Council, Iowa State Troopers Association, Iowa State Patrol Supervisors Association.
29. JudRet – Iowa Judges Association.
30. MFPRSI – Iowa League of Cities.
31. MFPRSI – Iowa Professional Fire Fighters.
32. Mark Berrman – Tax-sheltered Annuities.

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